

**Executive Board of the
United Nations Development
Programme, the United Nations
Population Fund and the United
Nations Office for Project Services**

Distr.: General

6 April 2017

Original: English

Annual session 2017

30 May to 9 June 2017, New York

Item 9 of the provisional agenda

United Nations Capital Development Fund

**Integrated annual report on results for 2016 and cumulative
report on the strategic framework, 2014-2017, of the United
Nations Capital Development Fund**

Summary

This report presents an overview of cumulative progress achieved against the UNCDF Strategic Framework, 2014-2017, with highlights of UNCDF results in 2016.

In 2016, UNCDF largely achieved its planned results in local development finance and financial inclusion, helping at least 14 million people to access financial services and supporting over 850 local governments to enhance their capital investment programming and boost their local fiscal space. There is growing evidence of the sustained impact of UNCDF results in reducing poverty, empowering women economically and fostering overall local development. Through its work on de-risking and blended finance and its focus on tackling entrenched inequalities and exclusions, UNCDF is contributing to the achievement of the Sustainable Development Goals and other global agreements, including the Addis Ababa Action Agenda, the Paris Agreement and the New Urban Agenda.

These results have been achieved despite a decrease in regular resources by ensuring strong leverage of UNCDF investments and effective scale-up of pilots, by introducing impactful innovations in UNCDF programmes and financing instruments, and by streamlining management and operating costs. However, regular resources are the foundation of the UNCDF business model, providing the risk capital for innovation and leverage, the technical expertise to remain at the frontiers of "last mile" finance innovation and the robust country presence needed to be a strategic partner to Governments and United Nations country teams.

The Executive Board may wish to take note of the 2016 integrated results and cumulative review; welcome the steps taken to prepare the next UNCDF strategic framework; and to recommit to supporting UNCDF work, including through fully funding regular resource requirements of \$25 million per year.

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I. Introduction

1. This integrated report—covering the annual progress of UNCDF for 2016 and its cumulative results against the Strategic Framework 2014-2017—was prepared in line with Executive Board decision 2016/7.

2. The review was conducted based on reported programmatic results data against the institutional results and resource matrix (IRRM) (see annex). The findings were triangulated with evaluation and audit reports; programme monitoring and progress reports; and financial and external data sources, including the Department of Economic and Social Affairs Sustainable Development Goals Indicators, MIX Market and World Bank data sets, and local development finance indicators in the targeted countries.

II. UNCDF and the changing context

A. Contextual analysis

3. Many least developed countries (LDCs) continue to make notable development progress. Ten LDCs are meeting graduation criteria, of which three are on track to graduate by 2021 and seven are meeting two criteria or the income-only criterion. At the same time, economic growth in LDCs has slowed since 2012, reaching 3.6 per cent in 2015. This is below the 7 per cent target recommended in the Istanbul Programme of Action. LDCs are still characterized by constraints such as low per capita income, low levels of human development and economic and structural vulnerabilities. Many LDCs are also affected by crises, natural disasters, climate change impacts and commodity price swings.

4. The last few years have seen the articulation of new development agendas that are shaping and reinforcing the importance of UNCDF work to de-risk investments in local governments, poor households and small and medium-sized enterprises (SMEs) in order to get finance flowing to where it is needed most. These include the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development, the Paris Agreement on Climate Change, the midterm review of the Istanbul Programme of Action, the New Urban Agenda, and the quadrennial comprehensive policy review of operational activities for development of the United Nations system.

5. These agendas have a strong focus on the imperative to leave no one behind. They call for tackling entrenched inequalities and exclusions and for integrated development solutions that support the achievement of multiple goals. With their emphasis on the need to mobilize resources from multiple sources and leverage their impact, these agendas are also giving impetus to UNCDF work to innovate “last mile” finance models that use public resources to catalyse additional public and private sector funding from both domestic and international actors. For each \$1 spent in regular resources, UNCDF is able to leverage about \$10 into local economies. This is very much in line with the General Assembly's call for the United Nations development system entities to mobilize multiple funding sources, deepen partnerships with relevant stakeholders and further explore innovative funding approaches.

6. As highlighted in the last results report, past UNCDF investments are yielding important results today. The focus now is on consolidating the lessons from those programmes and scaling up and replicating what works. UNCDF continues to push new frontiers of finance in response to demand and to evolve its models and approaches based on the lessons learned. Moreover, UNCDF continues to optimize its capital mandate: it is working to strengthen its lending capabilities through the establishment of the LDC Investment Platform and to attract blended finance to scale up initial UNCDF investments.

7. A major constraint remains the limited regular resources of UNCDF. The consistent shortfall against the \$25 million annual target agreed in the Strategic Framework strains the Fund's ability to innovate. The UNCDF country presence has dropped to 30 LDCs against the 40 projected in the Strategic Framework and this number is at risk of further reduction. Regular resources remain the foundation for the UNCDF business model, providing the risk capital for innovation and leverage,

the technical expertise to remain at the frontiers of last mile finance innovation, and the robust country presence needed to be a strategic partner to Governments and United Nations country teams (UNCTs) and ensure a strategic, rather than fragmented, country engagement.

B. Highlight of results, 2014-2016

8. This section provides highlights of UNCDF cumulative results, covering the period 2014-2016 with a focus on 2016, by its two main practice areas – local development finance and financial inclusion.

9. In local development finance, UNCDF aims to be a centre of excellence and innovative funding for local government finance and local economic development finance. The Strategic Framework saw a significant evolution in the financial tools and instruments applied by UNCDF. The Fund's local development fund model continued to yield results by promoting fiscal decentralisation to get finance flowing to secondary cities, peri-urban and rural areas in LDCs so they can respond to the infrastructure and service needs of their citizens, including in post-conflict environments. A new generation of innovations – such as performance-based grants – were introduced, attracting significant follow-on funding from Governments and donors. UNCDF developed and piloted new tools for unlocking domestic private sector finance for local economic development and municipal finance. These tools demonstrate how well-targeted official development assistance (ODA) can build bankable pipelines of transformational projects that can attract commercial financing from domestic banks and pension funds in LDCs. This approach is also showing impressive results in growing SMEs and empowering communities and local governments to build priority infrastructure. Furthermore, in response to changes in the global development landscape, UNCDF introduced fiscal approaches for local governments to adapt to new development challenges. This included supporting their direct access to global climate funds for climate adaptation, and helping secondary cities access more sustainable sources of finance through public-private partnerships and municipal bonds.

10. In financial inclusion, UNCDF concentrated on building inclusive financial systems that reach un-banked populations and micro-SMEs, with a focus on women and youth. UNCDF adopted a two-fold strategy: supporting market development and enabling environments via data-driven diagnostics and ecosystem-building approaches; and making targeted investments that supported a range of innovative and scalable models to reach unbanked women and men. UNCDF partnered with more than 130 institutions, including commercial and cooperative banks, mobile money and remittance operators and insurance companies. By building stronger market environments, UNCDF enabled a wider range of innovative models to be tested and scaled up. For example, the Making Access Possible (MAP) programme is generating data that “reveals markets” and helps the private sector make decisions on financial service innovations. Ecosystem approaches are making it possible for innovative digital financial services (DFS) models to be tested and scaled up, extending the reach of financial inclusion. UNCDF has also introduced challenge funds and financial product innovations tailored to the needs of hard-to-reach populations, especially women and youth, increasing their access to financial services and empowering their productive capacities.

Results against Outcome 1: Financing increased for basic services and inclusive growth and local economic development

Local development finance

11. National Governments cannot undergo local economic transformation and cannot meet the Sustainable Development Goals without utilizing the comparative advantage of local governments. When decisions about resources are made locally and those resources are invested locally, there is potential for an accelerator effect for inclusive growth. UNCDF invested \$72.7 million to enhance local development finance in over 20 countries since 2014. It directly supported 4,263 infrastructure investments through local government investment programmes during the Strategic Framework period. These investments have demonstrated local capacity and stimulated policy reforms that accelerated local basic service provision and local economic development.

Figure 1. UNCDF-supported public local infrastructure investments by sector in 2016

12. UNCDF measured the performance of its targeted local governments using selected indicators from the Public Expenditure and Financial Accountability (PEFA) framework, modified for the subnational level. Based on a sample assessment using the modified PEFA standards, 31 per cent of the sampled local authorities increased their performance in areas of transparency and accountability, while 69 per cent maintained their performance levels. This exceeds the target of 75 per cent of the sampled local governments increasing or maintaining their performance levels.

13. In support of public-private partnerships in local infrastructure development, UNCDF invested \$632,000 in seed capital in 2016 to prepare 11 revenue-generating catalytic project investments to reach an investment-ready¹ stage. These projects will be presented to local banks to unlock some \$28 million for local development. As in all UNCDF activities, the project pipeline has a piloting and demonstration effect and is designed to be scaled up and replicated; this initiative began in a few regions in the United Republic of Tanzania, became a national platform for local investment and is now being rolled out in five other countries. Each investment is chosen for its catalytic effect on local economic development and its impact on key themes such as women's economic empowerment, climate adaptation, clean energy and food security.

14. During 2016, UNCDF commissioned a study on the impact of its local development finance initiatives. Preliminary results indicate significant increases in local fiscal space, resulting in follow-on investments in local infrastructure and services. The study found a scale-up impact of up to 40 times the original UNCDF investment. For example, over the last 18 years in Uganda, \$619.5 million was channelled by the Government and the World Bank into local capital investments to build on and expand a joint UNCDF-UNDP pilot programme that invested \$14 million (1999-2001). In the United Republic of Tanzania, a decentralization development grant programme piloted by UNCDF in six local districts with a budget of \$4 million (2000-2003) was later scaled up by the World Bank, the Government and other development partners to the tune of \$686 million (2004-2016).

Table 1. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Output 1.2.1 Total number of district-level local governments supported	1,000	854	+
Output 1.2.2 Total volume of UNCDF investments made to local governments	\$15,000,000	\$10,200,874	+/-
Output 1.2.3 Additional public and private investments leveraged by UNCDF programme contribution	10:1	11.7:1	+
Output 1.2.4 Percentage of local governments supported by UNCDF that report maintained or increased capacity on allocation of resources based on PEFA standards	75% of sample	100% (31% increased; 69% maintained)	+

¹ Investment-ready stage: UNCDF Local Finance Initiative technical team provided targeted technical assistance to local development investment projects and developers. Completed projects are now in 'investment-ready' stage which means that the technical assistance (project development cycle) for UNCDF has been completed (appraisal, data collection, due diligence, analysis, project structuring, financial analysis, governance and compliance, final investment documents, facilitated submissions to banks/partners and subsequent follows). The technical assistance provide by LFI de-risks these investments so that they become more attractive for investment by the private sector capital markets.

Output 1.2.5 Number of UNCDF-supported local investments in infrastructure completed, disaggregated by type of infrastructure and financing modality	1,587	967	+/-
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* Performance assessment scores: Achieved (+ or Green) = 75-100%, Partially achieved (+/- or Yellow) = 50-70%, Not satisfactory (- or Red) = < 50%

Financial inclusion

15. Access to financial services is recognized as a target in seven of the Sustainable Development Goals. There is growing empirical evidence on the important role of financial inclusion in poverty reduction, women's economic empowerment and inclusive growth.² Recognizing the impact of financial inclusion for development, in this Strategic Framework period UNCDF invested \$106.8 million in financial service providers (FSPs) to reach over 14 million saving clients with a range of financial products and expand the frontiers of financial inclusion. In 2016, UNCDF supported 134 FSPs with seed investments and technical assistance to extend financial services to new groups.

16. In addition to UNCDF regular resources, development partners provided \$97 million in funding for UNCDF-designed programmes since 2014, or 10 times the UNCDF regular resource investments. This significantly boosted the Fund's ability to produce strong results.

17. Within the context of their total deposits of \$3 billion, UNCDF-supported FSPs achieved a net increase in deposits of \$1 billion mobilized since 2013, demonstrating the potential for well-targeted ODA to catalyse domestic resources for development.

18. In adapting to the ubiquity of mobile phones and digital applications during the Strategic Framework period, DFS innovation has become a driver across most UNCDF interventions. UNCDF created innovation hubs that engaged large mobile network operators or commercial banks to design and test client-centric product innovations and alternative delivery channels to reach unbanked women. DFS also increased access for young people; increased smallholder farmer productivity by helping them access the inputs they need; and supported innovative business models for women that increased their economic participation. UNCDF assisted Governments in digitizing bulk payments, such as welfare grants. UNCDF also supported digital applications to solve real-world problems, such as through supporting businesses that use pay-as-you-go systems to expand access to clean and renewable energy. Based on these lessons, UNCDF is now exploring how DFS can be expanded into a wider range of digital innovations and enable access to essential goods and services.

19. In August 2016, with UNCDF support, MTN Uganda and the Commercial Bank of Africa launched MoKash,³ the first mobile-based microsaving and microlending service of its kind in Uganda. The market responded very positively, with 83,000 customers joining within the first 48 hours, 650,000 after one month and over 1 million in three months. Coffee farmers involved in the project used the service as a tool to smooth consumption, buy fertilizer, pay school fees and ensure payments to labourers employed during the coffee seasons.

20. Access to financial services allows poor people to solve real problems. The Pacific Financial Inclusion Programme (PFIP), jointly administered by UNCDF and UNDP, helped FSPs to increase usage of financial products, especially microinsurance, across the Pacific, reaching some 1.1 million clients. The usage rate (the number of active product users in a 90-day period) showed a clear increase from 7.5 per cent usage before the Fund's interventions to 59 per cent usage afterward. PFIP also set up regional innovation labs to drive second-generation deployments in DFS for underbanked customers, with the first-phase labs underway in Fiji and Solomon Islands. The labs focus on improving the customer experience, value proposition and adoption of financial services and target priority groups, particularly women.

² An article published in *Science* (2016) by Suri and Jack reported results of a long-run impact study on a mobile money service in Kenya, M-PESA. The study found "mobile money has lifted as many as 194,000 households – 2% of the Kenyan population – out of poverty, and has been effective in improving the economic lives of poor women and of members of female-headed households."

³ <http://mm4p.uncdf.org/three-months-down-road-uganda>

21. MicroLead, a global initiative that challenges FSPs to develop, pilot and scale deposit services for low-income rural populations, particularly women, reached over 805,000 new customers, roughly 61 per cent of whom are women. MicroLead supported FSPs to reach previously untapped rural markets with demand-driven, responsibly-priced products offered via alternative delivery channels such as rural agents, mobile phones, point-of-sale devices and informal community groups. The products were offered together with financial education for customers. In 2016, DFS were offered by most UNCDF FSP partners. For example, NBS Bank Malawi developed a digital savings account called Pafupi Savings in 2014 with UNCDF support to remove barriers to formal savings for low-income people in rural areas, especially women, which continued to be scaled up in 2015-2016. As of December 2016, Pafupi had reached 76,000 depositors. Pafupi allowed accounts to be opened in under 10 minutes at the client's doorstep with no paperwork required, and it enabled women to bank conveniently in their neighbourhoods. This is having a market demonstration and creation affect, not only within NBS, which has over 350,000 retail depositors, but also with customers demanding that other banks offer similar convenience.

Table 2. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 1.a.1. Net change in number of voluntary savers	6,400,000*	5,893,826*	+
Outcome 1.b. Net change in US\$ value of savings portfolio of UNCDF-supported FSPs	\$585,000,000*	\$1,090,906,583*	+
Outcome 1.c. Net change in US\$ value of loan portfolio of UNCDF-supported FSPs	\$585,000,000*	\$465,911,122*	+
Output 1.1.1 Total number of FSPs supported	100	134	+
Output 1.1.4 Percentage of FSPs that have audited financial statements	90%	81%	+
Output 1.1.7 Percentage of FSPs that endorse SMART Campaign Client Protection Principles	90%	67%	+/-

* Marked for cumulative plans and results covering full Strategic Framework period

Results against Outcome 2: Financing mechanisms established to increase resilience to economic and environmental shocks

Local development finance

22. Local governments are on the front lines of responding to climate risks, and securing finance is essential for building local resilience to a range of shocks. UNCDF contributed to the implementation of the Rio Conventions on climate change and on desertification by developing mechanisms that enable LDCs to access resources for local governments and local economies to strengthen their resilience. The 2015 Paris Agreement stressed the role of subnational governments in strengthening resilience to climate change. Yet most climate finance is centrally allocated or managed. To help local governments take necessary climate action, UNCDF has designed the Local Climate Adaptive Living Facility (LoCAL). LoCAL works by channelling performance-based climate-resilient grants through intergovernmental fiscal transfer systems for local public and private climate-resilient investments.

23. In 2016, LoCAL delivered some \$3 million, working with 64 local governments in 12 countries, to introduce and scale up the climate-resilient grant system. Over 130 investments were completed in a range of sectors, from water and sanitation to agriculture, disaster prevention, transport and storage. In 2016, an additional \$9.75 million was mobilized by LoCAL to scale up its efforts in Bangladesh, Cambodia and Tuvalu.

24. The Governments of Bangladesh, Benin and Bhutan each also committed domestic financial resources for upscaling the LoCAL facility. In Bhutan, LoCAL is operating in half of the local governments with focused investments in water management. In Benin, the national fiscal transfer system scaled the use of the LoCAL method by injecting additional funds twice the size of the original investment and expanding it to three other local governments. In Bangladesh, UNCDF is exploring options for adapting the LoCAL system to help build climate change resilience in urban areas.

25. In Ghana, LoCAL invested in reforestation and trained local council members on early warning systems and citizens on bush fire prevention. UNCDF has carried out scoping missions to expand LoCAL to Lesotho and Uganda in 2017.

26. In 2016, UNCDF worked with the Food and Agricultural Organization of the United Nations (FAO), the Organisation for Economic Co-Operation and Development and the secretariat of the United Nations Convention to Combat Desertification to shift the paradigm on food security and nutrition policies towards a territorial approach embracing multisectoral, bottom-up and location-specific interventions. The UNCDF Finance for Food programme aims to develop national platforms for investment in local food systems building on local investment finance mechanisms already established through past UNCDF interventions.

27. In Benin, UNCDF supported the Government to introduce a revised budget code for food security to record and improve the management of relevant funds flowing to this sector. In Mozambique, UNCDF worked on consolidating a food security analysis into the LoCAL planning process to address the risk of extreme weather events increasing community food insecurity. In Mali, UNCDF supported investments in essential local community infrastructure, including a dam in Sandare, which extended arable land by 48 hectares, and a cereal bank in Korera-Kore that contributed to the stability of food supply and prices in the local communities. In Niger, UNCDF implemented a cash-for-work approach to combat erosion of degraded land and regenerate ground water levels over the long-term.

Table 3. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Output 2.2.1 Volume of funds channelled through new financing systems piloted by local governments with UNCDF support targeting vulnerability, exclusion, and shocks disaggregated by types of thematic areas	\$4,500,000	\$3,357,262	+
Output 2.2.2 Percentage of local governments having integrated the resilience dimension in their planning and budgeting processes	80% of sample	68%	+

Financial inclusion

28. Financial inclusion helps promote household resilience by allowing families to cope with shocks, smooth consumption when needed and plan ahead. To this end, UNCDF has supported the piloting of 98 new products since 2014, of which 82 are being scaled up. Some 4.7 million people have been reached through these new financial products since 2014; of the new clients, 54 per cent were women.

29. YouthStart, a programme to increase access to financial services for low-income youth in sub-Saharan Africa, was successful in institutionalizing youth products in 9 of 10 partner FSPs, and they have continued to scale their outreach. In 2016 alone, YouthStart's FSP partners provided access to savings accounts to almost 730,000 young people, of whom 44 per cent are young women; trained over 700,000 youth in financial education; and provided loans to over 125,000 young entrepreneurs, 54 per cent of them women. These young clients have accumulated over \$20 million in savings. In an in-depth behavioural study,⁴ researchers found that YouthStart had positive behavioural impacts: young people who participated in the programme had more confidence in their future, which may impact their decisions about risky behaviours, migration and radicalization.

30. CleanStart, which helps low-income consumers transition to cleaner and more efficient energy through microfinance, set up a Renewable Energy Challenge Fund (RECF). RECF builds on earlier challenge investments of \$1.2 million in four early-stage consumer financing ideas being tested in Uganda. Two of those partners, D.light and Biolite, have each raised working capital of over \$15 million from investors, with two others, Brighterlite and Kamworks, raising additional funding from other types of funders. Through these initiatives, UNCDF has paved the way for start-ups with

⁴ <http://uncdf.org/sites/default/files/Documents/youthstart-behavioural-report-lr.pdf>

social benefits for previously unreachable segments of the population, to gain access to the commercial finance for scale up in LDCs.

31. In Asia, the UNCDF Shaping Inclusive Finance Transformation (SHIFT) and CleanStart programmes launched a challenge fund focused on fostering innovative business models for women's financial inclusion, with the goal of reaching over 1 million women in Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam. To date, some 630,000 low-income individuals have accessed financial services through UNCDF investments in nine women-oriented business models. These investments have leveraged \$3.5 million from the private sector and donor funds. The SHIFT programme has also supported women's economic participation by collecting and developing sex-disaggregated dashboards and toolkits for regulators and providing FSPs with training on big data that incorporated a gender focus.

Table 4. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 2.a. Number of new financial products to improve client security, resilience against shocks scaled up by UNCDF supported FSPs	38	30	+
Outcome 2.b. Number of clients served by these new scaled products	1,600,000	2,570,556	+
Output 2.1.1 Number of new or improved financial products piloted with support of UNCDF	38	32	+

Results against Outcome 3: Policy environment that is conducive to sustainable financing for sustainable development

Local development finance

32. The importance of local governments in implementing global agreements, responding to crises and empowering women is increasingly being recognized. In 2016, UNCDF intervened in three major global policy debates. First, with FAO, UNCDF organized a conference series and launched publications on the territorial approach to food security. Second, UNCDF deepened its relationship with the Green Climate Fund (GCF), participated in the twenty-second Conference of the Parties to the United Nations Framework Convention on Climate Change in Marrakech, and agreed to work with LDCs and the GCF secretariat to support direct access to climate finance for local governments using LoCAL facilities. Third, UNCDF participated in the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito and contributed to the drafting of the New Urban Agenda, with a special focus on municipal finance. As part of this process, UNCDF and the United Nations Department of Economic and Social Affairs organized two expert group meetings on municipal finance, in Dar Es Salaam and Bangkok, to capture best practices from development partners and LDCs.

33. UNCDF also made important contributions to the midterm review of the Istanbul Programme of Action, contributing to the outcome document's strong focus on the financing needs of LDCs; arranging a number of side events leading up to and at the high-level midterm review meeting at Antalya focusing on last-mile finance; and preparing a number of quality knowledge products, including a publication with UNDP examining case studies and drawing lessons on what it will take to reach the last mile in LDCs.⁵

34. In South-East Asia, UNCDF developed and extended strategic partnerships with the Association of Southeast Asian Nations secretariat and with the Greater Mekong Subregion Programme, managed by the Asian Development Bank, with a focus on supporting the border regions.

35. At the country level, UNCDF contributed to local financing policies, legislation and regulations. Under LoCAL in 2016, UNCDF supported the adoption of action plans and planning guidelines mainstreaming climate change adaptation in Cambodia and Niger at the subnational

⁵ 'Getting to the last mile in LDCs' (UNDP/UNCDF, 2016). <http://www.uncdf.org/sites/default/files/Documents/getting-to-the-last-mile-nov-2016.pdf>

level. In Mali, the Government drafted its first national policy for food security in 2016, taking into account the territorial approach tested by UNCDF. In Bangladesh, UNCDF prepared the foundation for municipalities to tap domestic capital by preparing a non-grant financing framework and municipal credit rating methodology. Ten municipalities have participated in preparatory activities to begin piloting steps to access new forms of municipal finance, with UNCDF support.

36. In Lesotho, the national decentralization policy was developed based on the experience of the joint UNCDF and UNDP Deepening Decentralization Programme that tested intergovernmental fiscal transfers to local governments. Positive results from this experience led line ministries to replicate the mechanism by transferring additional responsibilities to local governments, together with a capacity-building grant to ensure effective delivery on their mandates.

37. UNCDF also supported local governments to reconnect citizens and the State and to rebuild fragile States through a bottom-up process. In Guinea, UNCDF contributed to strengthening economic security at the border regions, especially in areas where the Ebola epidemic had a dramatic impact on local economies, with a focus on enhancing women's economic participation.

38. In Burundi, UNCDF introduced a food security programme that aims to mitigate social tensions by bringing various actors together to decide on their needs and prioritize community investments.

39. In Somalia, UNCDF worked through a joint United Nations programme to support the rebuilding of the State by designing the basic financial architecture in subnational government. In 2016, a significant milestone was achieved with the entry into force of the Bulk Transfer System for intergovernmental fiscal transfers that enabled the Ministry of Finance to supervise and monitor fiscal transfers. UNCDF also supported the establishment of a government budget conference to support better planning and budgeting. This is an example of the UNCDF approach to peacebuilding through local government finance.

Table 5. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 3. b. Number of national strategies, action plans, policy or regulatory changes for local development finance adopted by host government	10*	16*	+
Output 3.2.1 Number of local development diagnostics completed	37	39	+
Output 3.2.2 Number of local development finance national strategies, action plans or policy/regulatory changes developed with UNCDF support	67*	80*	+
Output 3.2.3 Number of people trained to strengthen capacities of national and local actors	25,000	45,741	+

* Marked for cumulative plans and results covering full period of the Strategic Framework, 2014-2017.

Financial inclusion

40. At the global level, UNCDF provided support to the Secretary-General's Special Advocate for Inclusive Finance for Development – the Queen of the Netherlands – through her Reference Group and the Group of Friends of Financial Inclusion. UNCDF work in South-South partnerships and strengthening FSPs, featuring MicroLead's results, was included in two key United Nations publications: the annual United Nations Conference on Trade and Development (UNCTAD) report on LDCs⁶ and the United Nations Office for South-South Cooperation (UNOSSC) publication on good practices in South-South and triangular cooperation for the Sustainable Development Goals.⁷

41. At the country level, UNCDF facilitates the adoption of road maps, strategies and action plans on financial inclusion by host Governments. The UNCDF MAP programme offers a powerful platform to encourage private sector investments in expanding financial inclusion, and is becoming

⁶ *The Least Developed Countries Report 2016: The path to graduation and beyond-Making the most of the process*, (UNCTAD, 2016) featuring the UNCDF MicroLead case: http://unctad.org/en/PublicationsLibrary/lcdc2016_en.pdf

⁷ *Good Practices in South-South and Triangular Cooperation for Sustainable Development*, (UNOSSC, 2016), featuring MicroLead case (page 79-80).

a strong engine for South-South cooperation, fostering peer-to-peer learning among countries. In 2016, UNCDF supported five national-level diagnostics, leading to 13 national-level financial inclusion road maps. UNCDF continues to support 10 other countries in similar processes. In addition to MAP, UNCDF supported the development of 27 ecosystem diagnostics on various issue areas, including digital finance and youth.

42. The UNCDF Mobile Money for the Poor programme engaged with policymakers to establish enabling environments for scale-up of DFS. In Zambia, UNCDF led the dialogue with regulators and private sector partners to allow high-volume payment transfers using mobile wallets. In Nepal, UNCDF supported the central bank to work closely with the private sector to design a compliance reporting tool that would enable real-time collection of financial service infrastructures, resulting in a publicly accessible database of FSP locations. In Senegal, UNCDF worked with the statistics bureau to collect data on retail payment flows, supporting evidence-based decisions and pushing for digital payments. These country experiences highlight the importance of public-private cooperation to adapt rules and regulations to suit the quickly evolving market environment. They also emphasize the importance of investing in better market data and information to enable evidence-based policy- and decision-making in financial services.

43. In Myanmar, UNCDF provided technical support and capacity building to the Financial Regulation Department and the Myanmar Microfinance Association. As a result of this work, the Financial Regulation Department revised its microfinance regulations, allowing greater ease in borrowing for microfinance institutions (MFIs) and enabling the strongest MFIs to increase their voluntary savings.

44. In Sierra Leone, UNCDF provided technical support to the central bank to launch the Sierra Leone National Strategy for Financial Inclusion, building on UNCDF support to digitalize payments for emergency response workers during the Ebola crisis.

45. The advocacy of the Better Than Cash Alliance (BTCA) has led to growing international recognition of the importance of digitizing payments. BTCA, for which UNCDF serves as secretariat, has secured the membership of 25 Governments, 21 development organizations and three companies, and this number continues to grow. BTCA has advocated the inclusion of digitizing payments in major policymaking forums, including the Global Partnership for Financial Inclusion and the World Humanitarian Summit. BTCA also contributed to the development in member countries of digital payment ecosystems that promote the sound development of payment infrastructure, driving the shift to digital and benefiting individuals, businesses and Governments.

Table 6. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 3.a Number of national inclusive finance road maps, action plans, national strategies or policy changes adopted by host government.	5	10	+
Output 3.1.1 Number of diagnostics on financial inclusion completed	9	33	+
Output 3.1.2 Number of commitments to BTCA to transition cash to electronic payments	35*	55*	+
Output 3.1.3 Number of capacity building activities completed to strengthen the capacity of financial sector regulators and supervisors, especially to safeguard poor people's savings	28	43	+
Output 3.1.4 Number of knowledge products that document UNCDF learning from programmes	33	103	+

* Marked for cumulative plans and results covering full period of the Strategic Framework, 2014-2017

C. Understanding performance against the Strategic Framework

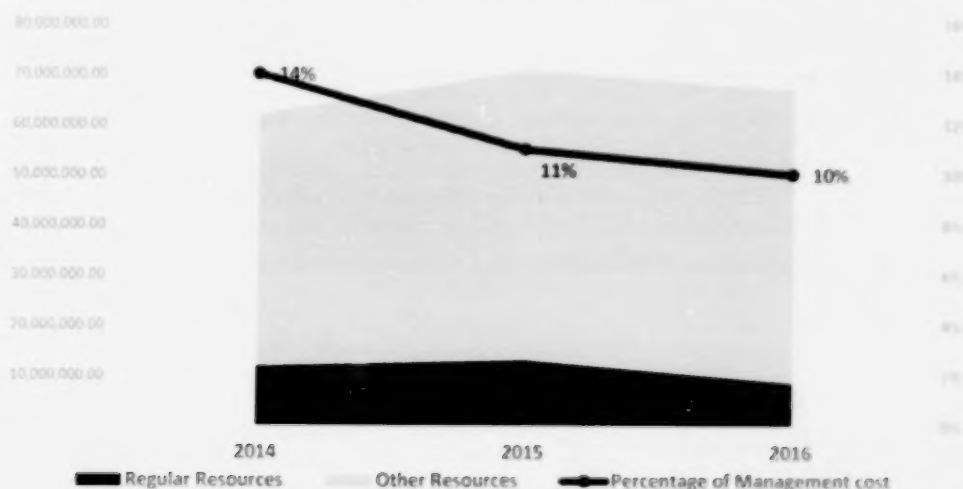
46. This section provides further analysis of results and lessons learned based on the IRRM (annex) and additional evidence provided by independent evaluations, consultancies and other internal and external reports.

47. According to the IRRM, 26 of the 35 outcome and output indicators with relevant data points in 2016 are considered to be on track⁹ to reach the cumulative target for the Strategic Framework period. Of these 26, 16 have already exceeded the target. The indicators with lagging progress are mainly those¹⁰ directly related to UNCDF levels of investments and grants, or indicators¹¹ that overestimated the targets in anticipation of a full resource mobilization meeting the annual regular resources envelope of \$25 million.

48. Despite the decrease in available resources, especially regular resources, between 2014 and 2016 UNCDF has been able to deliver on the key outcomes of the Strategic Framework for a number of reasons. It made significant progress in mobilizing other (non core) resources from private sector and non-governmental partners, as evident in the 249 per cent overachievement against the mobilization target for the full Strategic Framework period.¹² In addition, UNCDF continues to leverage significant amounts of additional public and private resources to consolidate, replicate and scale up what works, meaning that in many cases results have been achieved because of the strong demonstration effects, ecosystems development and increasingly, market development approaches provided by UNCDF interventions.

49. Moreover, UNCDF has been very nimble in utilizing global programmes to maintain country presence and technical expertise and build synergies among multiple projects and partner organizations. It also streamlined its management and operation structures by clustering support functions. This restructuring of resources is evident in the gradual decrease in the Fund's management costs ratio, from 14 per cent in 2014 to 10 per cent in 2016 during a period of a decrease in regular resources of 37 per cent.

Figure 2. UNCDF expenditures and percentage of management costs, 2014-2016



50. At the same time, the decrease in regular resources poses significant risks. It has resulted in the closure of 10 country programmes in local development finance and six country programmes in financial inclusion since 2014. Overall, the UNCDF country presence in LDCs has decreased from 32 countries in 2014 to 30 countries in 2016, and is at risk of declining further. In some cases, the UNCDF presence is limited to project staff, sometimes outside the capital, making it difficult to engage strategically with Governments, UNCTs and other development partners on wider

⁹ Defined as the cumulative implementation rate being on or exceeding 75 per cent as 2016 is the third year of the four-year Strategic Framework (2014-2017).

¹⁰ Indicators 1.2.2 and 2.1.1.

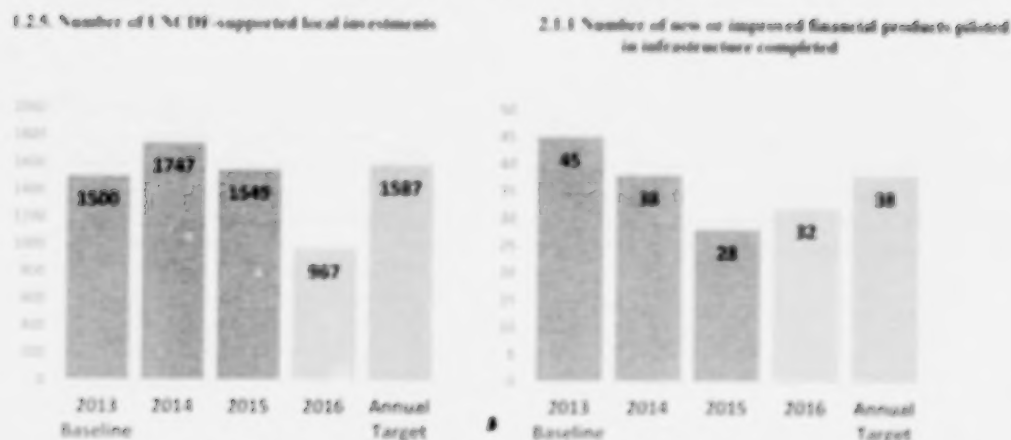
¹¹ Indicators 2.a, 2.2.2, 3.1.4 a, 3.2.1 a, and 3.2.4.

¹² UNCDF mobilized a total of \$49,727,342 since 2014 against the Strategic Framework target of \$20 million. See institutional effectiveness indicator 1.2.3 in the IRRM (annex 1).

development priorities. Overall, the UNCDF country presence falls short of the Strategic Framework's goal of 40 LDCs, and this presence is increasingly dictated by the priorities of donors of other resources.

51. The IRRM also clearly indicates that outputs reliant on flexible regular resources—such as those to test and pilot innovations, deploy capital grants to de-risk the local economic space and expand the frontier of where finance flows—have been severely affected by the decrease in resources. For instance, the number of UNCDF-supported investments in local infrastructure has dropped 44.6 per cent, from 1,747 in 2014 to 967 in 2016. The number of new and improved financial products piloted with UNCDF support has also decreased, from 38 in 2014 to 32 in 2016. Both outputs are unlikely to reach the cumulative targets set for the Strategic Framework period under the current outlook for regular resources.

Figure 3. UNCDF IRRM indicators affected by decrease in resources



52. During the 2016 midterm review, UNCDF introduced new indicators to strengthen monitoring of its gender-related results in the IRRM. An analysis of the gender indicators combined with assessments from the United Nations System-Wide Action Plan on Gender Equality and the Empowerment of Women (UN-SWAP) and other programme reports demonstrate the Fund's improved performance to promote gender equality and women's empowerment. Sex-disaggregated data on UNCDF beneficiaries and clients in 2016 show that over 45 per cent of the beneficiaries have been women, contributing to existing efforts to reduce gender gaps in banking and economic participation in LDCs. Furthermore, gender-sensitivity and awareness have been mainstreamed in UNCDF policy and knowledge creation efforts, demonstrated by the fact that 89 per cent of UNCDF-supported financial inclusion strategies and policies adopted by host Governments have incorporated gender considerations.

Figure 4. Selected UNCDF IRRM sex-disaggregated indicators

Net change in number of customers of UNCDF-supported FSFs disaggregated by sex in 2016



Number of beneficiaries of UNCDF-supported local infrastructure projects disaggregated by sex in 2016



Number of gender-sensitive national inclusive finance road maps, plans, strategies, policy change adopted by host Governments



53. Women's economic empowerment is recognized as a major pillar of several UNCDF programmes, including SHIFT and CleanStart, where over 63 and 80 per cent respectively of their supported customer base have been women. Additionally, UNCDF, together with UNDP and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women),

launched a new programme on women's economic empowerment in 2016, Inclusive and Equitable Local Development, focused on removing the structural barriers that prevent women from entering the labour market by designing and implementing gender-responsive public and private investments. The programme will be piloted in Bangladesh, Uganda and the United Republic of Tanzania in 2017. UNCDF also secured a new planning grant to develop a programme addressing access and agency issues faced by women in the uptake of financial services.

Select lessons and findings from implementation of the Strategic Framework to date

54. UNCDF continues to draw on its evaluations and programme reviews to identify valuable lessons and recommendations to help shape future programme interventions.

55. A midterm evaluation of the Making Access to Finance Possible for Poor People (MAFIPP) programme in the Lao People's Democratic Republic found that the project had effectively built capacity across all levels of a relatively nascent inclusive finance industry, leading to "substantial growth in the number of savers and borrowers" from four partner FSPs; the "transformation of an informal working group into a registered and recognised Microfinance Association"; and the "creation from scratch" of an initial regulatory framework for DFS in the country".¹² The evaluation recommended that the project anchor itself more firmly into the newly-developed country strategy for financial access, including stronger links with the UNCDF MAP programme; increase its support to financial education; and work closely with the Microfinance Association as a channel for dissemination of knowledge and good practices in inclusive finance. UNCDF will be adopting these recommendations in the country and more broadly is actively working to ensure better linkages between its different programmes.

56. UNCDF also conducted a final evaluation of a local economic development programme in Niger. It reported generally good results in supporting local governments in the Maradi region to better allocate and manage local public investment funds. A total of 91 investments worth 51.4 million supported the construction and rehabilitation of small-scale infrastructure such as agricultural storage facilities, cattle markets and abattoirs, as well as village wells and local health facilities. This, together with the deployment of an inventory credit ("warrantage") instrument, enabled FSPs to extend credit at the time of harvest, particularly to populations that were judged to be more vulnerable, including women, allowing farmers to invest in income-generating activities. Going forward, the evaluation recommended that UNCDF work more strategically with other partners active in the sector including government agencies to ensure that support is continued once projects come to an end. It also recommended that UNCDF improve the quality of collaboration between its two specialized practices in joint projects of this type, as well as revisit the process of project design and monitoring and evaluation, with a view to better measuring and documenting development results.

57. In addition to the evaluation findings, based on an internal review UNCDF has identified the following key lessons from implementation of the current Strategic Framework. First, the UNCDF focus on "last mile finance" and its risk appetite to work where others are not present, remains critical to helping LDCs use blended financial models effectively to address exclusions while they pursue the Sustainable Development Goals and graduation. UNCDF work fills a significant gap in the development finance landscape by concretely demonstrating how to shift the dynamic of local resource flows in LDCs. Without sufficient finance in the last mile, poor populations, SMEs and local governments in LDCs are at great risk of being left behind.

58. Second, UNCDF experience shows that well-designed financial tools and instruments can drive innovation and development of new sustainable finance models that work for the poor. Fiscal transfers, municipal finance and structured project finance helped localities attract investments to address infrastructure needs in the local economies. Use of challenge funds, that is, putting out calls for the best ideas in the private sector to address last mile inclusion challenges, drew private actors into new markets and incentivized them to address the needs of poor communities they would not ordinarily serve. This is leading to shifts in the way financial services providers view the viability of serving poor clients. New services are creating more resilient and financially dynamic households.

¹² Conclusions and recommendations, MAFIPP evaluation, page 90

SMEs and value chain actors. UNCDF is connecting women, youth and small holder farmers to financial services they never had access to, expanding access and usage further into previously excluded areas. New digital finance models such as pay-as-you-go models are helping poor people tap into essential services, such as clean household electricity. Based on these lessons, UNCDF is now exploring how these innovations, especially in DFS, can be expanded to other essential goods and services.

59. Third, UNCDF has continued to evolve its tools and approaches to respond to the changing development landscape and based on lessons learned. For example, UNCDF is increasingly supporting saving-led financial inclusion and gender-sensitive infrastructure investments because evidence shows these are important avenues for women to be able to exercise economic and financial agency in their homes and communities. UNCDF supports collection of data and development of diagnostics because this evidence helps reveal markets to economic actors and investors and drives policy change. UNCDF has learned that there is no single "right" way when it comes to DFS; the right enabling environment is key. UNCDF has also learned that empowering local authorities with discretionary budget allocations in crisis situations can help reinforce the legitimacy of the State, especially in rural and remote areas. UNCDF helps local authorities access diverse funding sources because they face growing pressures to respond to the needs of citizens as the world urbanizes and populations grow.

60. Finally, the UNCDF maturity model—innovate, consolidate/replicate and scale up—helps UNCDF punch far above its weight through the demonstration effect and leverage it generates. This is why ensuring sustainability and leverage continues to be a driving objective in the UNCDF business model, and why increasing regular resources remains so important going forward.

61. UNCDF is incorporating these lessons into the design of its new programmatic approaches, as well as its new strategic framework.

D. Analysis of institutional effectiveness

62. Among the 30 IRRM indicators that capture UNCDF institutional effectiveness, 25 are "on track" or "above track". UNCDF has maintained high levels of institutional effectiveness in the areas of evaluations, communications, policy, and partnerships, while significantly improving its performance in audits and gender mainstreaming. UNCDF made strong improvements in its compliance with the UN-SWAP, from 40 per cent in 2014 to 73 per cent in 2016. As noted, UNCDF continues to have difficulties in meeting its resource mobilization targets, especially for regular resources.

63. UNCDF has conducted a resource scenario planning exercise for 2018 to estimate the impact on capacities and operations under a constrained (10 per cent decrease in regular resources), status quo (no change in regular resources) and optimistic (10 per cent increase in regular resources) revenue outlook. Under a constrained scenario, it is estimated that the UNCDF presence in LDCs will decrease further from the current 30 to 25 countries or fewer. A status quo scenario in regular resources would also lead to some cuts in country presence due to natural inflation rate considerations in costs, while an optimistic outlook will reverse this trend.

64. In addition to its impact on LDC presence, a constrained resource outlook will significantly restrict the Fund's ability to remain at the frontiers of last mile finance innovation, and to be a strategic partner to Governments and UNCTs. Regular resources are the cornerstone of the UNCDF business model, providing the risk capital for innovation and leverage and the technical expertise to drive change. The current resource scenario exercise covered the period up to 2018 under a "business as usual" assumption, but a more detailed analysis will be conducted in line with the development of the new strategic framework, 2018-2021.

65. At the same time, UNCDF continues to work on diversifying its portfolio and finance instruments to find alternative solutions to cope with the reduction in regular resources and ensure lasting impact in LDCs. UNCDF has started to deepen its partnership with traditional regular resources donor countries while attracting new donors to regular resources from both traditional and non-traditional donor groups; for example, UNCDF is actively working to increase the number of LDCs among its donors to regular resources.

66. Furthermore, UNCDF has launched and is working to operationalize an LDC Investment Platform. The platform will provide through grants, reimbursable grants, loans and guarantees—seed funding to de-risk domestic and foreign investor participation in local initiatives that are below the radar of institutional investors. This platform will allow UNCDF to apply the optimal funding instrument for each business need, and to replicate and leverage in domestic and international investments. As part of this work, UNCDF is strengthening its ability to issue and manage loans, where loans are the most appropriate tool to create the market incentives that leverage other resources and to help grow the local private sector. In 2016, UNCDF also launched the Last Mile Finance Trust Fund, a flexible funding vehicle to allocate resources through thematic windows highly relevant to LDC development opportunities and challenges.

67. UNCDF continued to support an active evaluation function in 2016. Its Evaluation Unit completed two external midterm and final project evaluations, summarized above. UNCDF also began three other midterm, multi-country programme evaluations: for the global Local Finance Initiative; for the global CleanStart programme; and for LoCAL working in 12 LDCs. The findings from these evaluations will provide important inputs into the new Strategic Framework.

68. UNCDF also made considerable progress in implementing both internal and external audit recommendations. Implementation of all recommendations is in advanced stages. All 10 internal audit recommendations, along with 9 of 10 (2014) and 2 of 7 (2015) external audit recommendations, have been fully implemented.

69. Fund balances at the end of 2016 were \$97.2 million, made up of reserves and employee benefits, multi-year contributions, end-of year contributions and unspent balances. UNCDF has made provisions for after-service health insurance as required by International Public Sector Accounting Standards and recalculated its operational core reserve to \$12 million. The extrabudgetary reserve is at \$2 million. Based on the recommendations of the United Nations Board of Auditors, UNCDF worked with an external firm to reassess the adequacy of its operational reserve. Appropriate adjustments will be made against the fund balances once a revised operational reserve methodology is approved.

III. UNCDF looking forward

70. In the year ahead, UNCDF is prioritizing three issues. First, it will continue to innovate, consolidate, and scale programmes and blended finance approaches in line with current workplans and budgets, and pursue new and broadened partnerships inside and outside the United Nations. Many UNCDF programmes take many years and more than one planning cycle to bear fruit. These will continue through the remainder of this Strategic Framework, and into the next, in support of LDC graduation and achievement of the Sustainable Development Goals.

71. Second, UNCDF will continue to evolve and adapt its models based on lessons learned, evaluations and programme monitoring, and will continue to use its capital mandate to expand the frontiers of finance in LDCs under the successor to the Istanbul Programme of Action. In particular, this is leading to a strong focus on using financing and digital tools to expand financial inclusion and access to real world goods and services; a push to expand access to finance for secondary cities in LDCs in line with the New Urban Agenda; an emphasis on helping local governments take climate action; a commitment to use data and diagnostics to drive policy and regulatory decisions related to inclusive finance; a dedication to proving the business case for providing financial services to underserved markets, such as women and young people; and throughout, a commitment to empowering women, both through mainstreaming gender and through stand-alone gender initiatives.

72. Third, UNCDF is preparing its next strategic framework for 2018-2021, in consultation with Member States, a wide variety of funding and implementing partners, UNDP, other United Nations entities and private sector actors. The substance of the new strategic framework will build on lessons, evaluations and reviews from the current Strategic Framework and IRRM. The Sustainable Development Goals will be mainstreamed into the next strategic framework, as per the quadrennial comprehensive policy review.

73. To make all of this happen, UNCDF will continue to seek to diversify its funding and partnership base even as it works with Member States to ensure a strong regular resources envelope to deliver on its goals. Fully funded, UNCDF will be able to bring strategic local finance solutions to up to 40 LDCs, helping them to increase access to public and private finance at the local level in support of inclusive pathways towards meeting the Sustainable Development Goals.